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Article

Italy: Flirting with technical recession

Poor November industrial production data combined with soft confidence numbers markedly increase the chances of Italy entering a technical recession in 4Q

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Industrial production data, just published by Istat, showed that the Italian economy shared the same difficulties as Germany and France in November. Although a public holiday at the start of the month might have contributed to the worsening picture, we believe the impact is probably only minor.

Lowest YoY reading since October 2014

The seasonally-adjusted measure contracted by 1.6% month-on-month (from a downwardly revised -0.1% MoM in October). The working day-adjusted YoY reading, better suited to monitor the trend, was also sharply down to -2.6% (from +1% in October), the lowest reading since October 2014. Production contracted by 2-4% MoM in intermediate goods, 1.7% MoM in investment goods and 0.9% in consumer goods. Only energy production managed to post a 1% MoM increase.

No big sectoral highlights and a confirmation of poor performance in the construction chain

A quick look at the sector performance shows that, among the recent best performers, only pharmaceuticals managed to maintain positive YoY growth (+1.3% YoY). Machinery and plant production lost ground (-2.2% YoY) and transport equipment, the growth champion at the beginning of the year, fell heavily into negative territory (-4.3% YoY). There was no relief for sectors related to the construction production chain, with rubber and non-metal minerals (-6.7% YoY) and wood and paper (-10.4% YoY) the worst performers.

A 0.1% QoQ GDP contraction and technical recession our new base case

The November production reading adds serious doubt about GDP growth over 4Q18. Over the Sep-Nov quarter, industry data on a seasonally-adjusted basis, contracted 0.1% QoQ and confidence data has deteriorated further overall. On past form, both the ESI and our computed PMI composite measure for Italy for 4Q18 are consistent with a contraction of Italian GDP in 4Q18. We are now pencilling in a second consecutive 0.1% QoQ GDP contraction in 4Q18, which would mark the start of a technical recession

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